Teachers' Pension Plan Board
Conseil du régime de retraite des enseignantes et des enseignants
Ontario

Spring 1995
Volume 14

EXCHANGE

A NEWSLETTER FOR MEMBERS OF THE ONTARIO TEACHERS' PENSION PLAN

Planning some extended time off?

Give yourself credit ...in your pension

Planning on taking a pregnancy or parental leave, or a year off to study or travel? Whatever the reason, it's important to know how an employer-approved leave affects your pension and that you can make pension contributions for your time away.

HOW A LEAVE AFFECTS YOUR PENSION

The amount of your pension is based on the actual years and months you teach and your average best-five years' salary.

The more credit you accumulate, the greater the amount of your pension.

Buying pension credit maintains your investment in your pension and, if the purchase gives you credit in a school year in which you previously had none, can allow you to retire earlier with an unreduced pension.

All leaves must be approved by your employer.

HOW MUCH IS A YEAR OF PENSION CREDIT WORTH?

With an average $60,000 salary, buying a one-year leave translates to about $1,200 per year more to your pension for life, indexed to inflation. If the cost to buy the one year is $5,340, the investment will pay for itself in about five years.

WAYS TO BUY

The cost is based on the contributions you would have made if you

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GOVERNMENT EXPECTED TO CHANGE RULES FOR CPP, OAS

The federal budget tabled earlier this year left $20 billion in benefits to seniors untouched, but the government has indicated that changes to public pensions will be legislated by 1997. The government is expected to change eligibility criteria for CPP, Old Age Security and Guaranteed Income Supplements.

In the meantime, contributions for CPP are scheduled to increase by roughly one tenth of a percentage point per year to 2016. Contributions to the CPP are shared equally by employers and employees. This year you pay 2.7% on contributory earnings to the limit of $34,900. This works out to a maximum of $850.50.

For more information about your CPP pension, please contact Health and Welfare Canada.

INSIDE THIS ISSUE

Ask Us a Question

Transferring RRSPs to pension

I would like to know if I can place my RRSPs into my pension plan and retire sooner?

M.S., Sudbury

You cannot transfer money from an RRSP to your pension and retire sooner with an unreduced pension. Revenue Canada and the *Teachers' Pension Act* do not permit the transfer of an RRSP with this in mind. However, when buying pension credit for a leave, you can transfer money from your RRSP to purchase all or part of the credit.

Coming to Terms

COMMUTED VALUE

Commuted value is the amount that may be paid if you quit before you reach the 90 factor or age 55. It is a lump-sum payment that is equal in value to your future pension payments.

It's important not to confuse commuted value with the value of your contributions plus interest. Your contributions are what you paid into the plan while commuted value is the value of your pension entitlement on termination of employment.

TWO NEW DIRECTORS COME ON BOARD

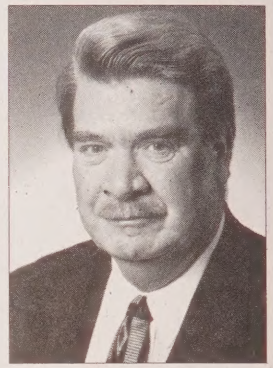
Jalynn H. Bennett, president of a consulting firm that specializes in strategic planning and organizational development, and David Lennox, Secretary of the Ontario Public School Teachers' Federation, are the newest members of the Board of Directors.

Bennett

Bennett was appointed to the board in January to replace Duncan Green. Green retired at the end of 1994 and has since been appointed to the Ontario School Board Reduction Task Force.

Lennox was appointed in March. He replaces Margaret Wilson who resigned to become the first registrar of the Ontario College of Teachers.

Bennett and Lennox join Gerald K. Bouey, Chairperson, John H.C. Clarry, Gail Cook-Bennett, Martin R. Hicks, Doug McAndless, C. Edward Medland and Lynne Sullivan.



Lennox

The Board of Directors is comprised of nine members. Four are appointed by the Ministry of Education and Training and four are appointed by the Ontario Teachers' Federation. The ninth member, the Chairperson, is jointly appointed. Directors are generally appointed for two years, with a maximum of four consecutive terms.

ONTARIO TEACHERS' PENSION PLAN BOARD

We're here to serve you

OFFICE HOURS

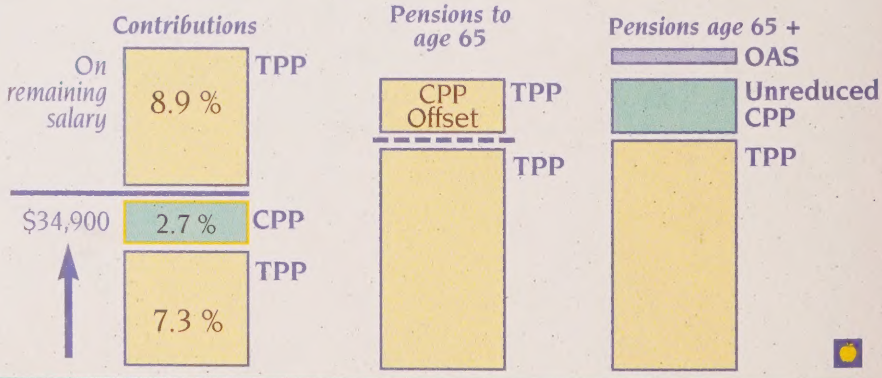
Monday to Friday

8:00 am to 5:30 pm

TELEPHONE

(416) 226-2700 or 1-800-668-0105

HOW CPP AND TEACHERS' PENSION PLAN WORK TOGETHER



DUDLEY DOOMSAYER

"At 65 my teachers' pension is reduced – what a rip off"

CONSIDER THIS:

- If you retire before 65, we pay the CPP portion in addition to your teachers' pension. We stop paying this benefit when, at 65, you're eligible for an unreduced CPP pension. This is what changes.
- Teachers collectively decided in 1966 to integrate the Teachers' Pension Plan with the Canada Pension Plan. This meant overall pension contributions for teachers would not be increased to accommodate CPP.
- Integrating the plans means that when you turn 65, your teachers' pension is reduced by an amount roughly equivalent to your unreduced Canada Pension Plan pension.
- Remember, you can take a reduced CPP pension after age 60 and not affect your teachers' pension. You'll collect your reduced CPP pension for life. However, at age 65 your teachers' pension is reduced by an amount roughly equivalent to the CPP pension you would have received if you had waited until age 65.

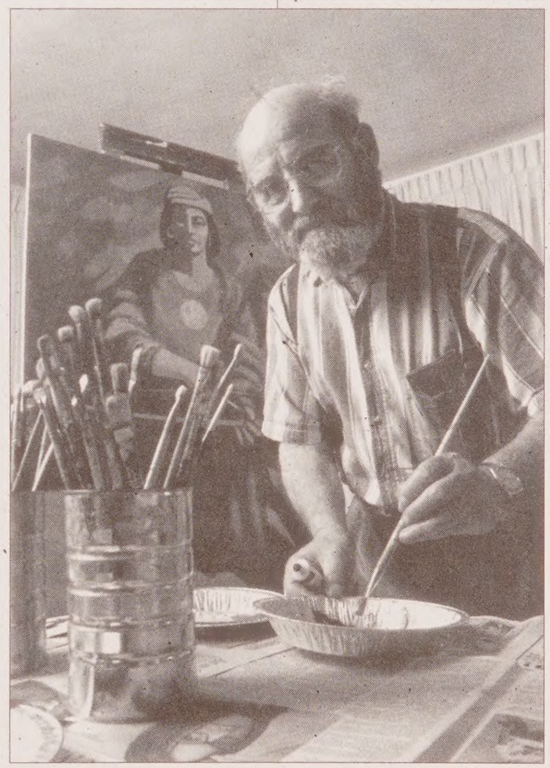
REAL-LIFE RETIREMENT

Life after teaching ...what do people do? Retirement can be an opportunity to start a second career, devote more time to your interests and to travel. This is the fourth in a series of stories featuring retired teachers who have found fulfilling ways to live out their retirement.

When Bert Wreford retired from teaching almost four years ago, he didn't think retirement was going to be this good. "My best hopes have been realized. It is an important time in my life. A time of rebirth. A rediscovery of myself and my relationship with others."

Bert taught art at a Hamilton-area secondary school for 24 years before retiring in 1991. He has been busy ever since. Bert works on his art, is learning a new language and is a volunteer in his community.

"I'm amazed when I hear stories about people who don't know what to do with themselves once they retire," says Bert. "Retirement is a gateway to doing the things you really want to do, preferably for other people."



Bert Wreford: "My best hopes have been realized."

Bert's art will be on display at the Spectator Newspaper Gallery in June as part of a show organized by the Hamilton Area Arts Council. He will have 10 or 12 large oil paintings and several three-dimensional works in the show.

"Retirement means I can commit myself to things I feel are important. I was an art teacher. Now I am able to put my energies into my own art."

A trip to Guatemala shortly after he retired spawned an interest in learning Spanish and he now attends night school once a week to learn the language. Bert plans to use his new language skills on a trip to Nicaragua, El Salvador and Guatemala, tentatively planned for the autumn.

Pre-retirement Death Benefits at a Glance

In the second of a two-part series on survivor pensions, we highlight survivor benefits if you die before you retire. In the Fall 1994 issue of Exchange we presented survivor benefits if you die while on pension.

Most teachers can expect to live long into retirement—on average about 25 years. However, should you die *before* retiring, the benefits available to your survivor vary depending on your length of service and whether the service occurred before 1987, or after 1986.

The following is a summary of pre-retirement death benefits. Your survivor will get explicit information about the entitlement and the application process when he or she informs us of your death.

Example

John is a 38 year-old teacher who has accumulated 13.8 years of credit. If John was to die today, his spouse, who is also 38, would receive an immediate pension based on his pre-1987 service of $2,640 a year for life, indexed to inflation. In addition, John's spouse would have a choice of receiving one of the following options based on his post-1986 service:

i) an immediate lump-sum payment of $37,200,
ii) an immediate pension of $2,050 per year, or
iii) deferring the pension to age 55 or later (at 55 she would receive $5,000 per year).

WHO'S ELIGIBLE?

If you die before you retire, survivor benefits are paid to your married or common-law spouse. If you do not have a spouse, benefits are paid to your eligible children. An eligible child is someone who is under 18, or between 18 and 25 and attending a recognized post-secondary institution immediately after secondary school, or disabled.

If you have neither spouse nor eligible children, you can designate a beneficiary for pre-retirement death benefits. If you don't name a beneficiary, benefits are paid to your estate.

Survivor	*Years of Credit*	*Pre '87 Service*	*Post '86 Service*
SPOUSE (must be living together at the time of your death)	more than 10 years	50% survivor pension for life, indexed to inflation	payment of commuted value of the member's pension either as: a) lump sum, or b) an immediate or deferred indexed pension
	less than 10 years, but more than 2 years	refund of member contributions plus interest	payment of commuted value of the member's pension either as: a) lump sum or b) an immediate or deferred indexed pension
	less than 2 years	refund of member contributions plus interest to estate	refund of member contributions plus interest to estate
ELIGIBLE CHILDREN (no spouse)	more than 10 years	50% survivor pension indexed to inflation to max. age 25	50% survivor pension indexed to inflation to max. age 25
	less than 10 years, but more than 2 years	refund of member contributions plus interest to estate	50% survivor pension indexed to inflation to max. age 25
	less than 2 years	refund of member contributions plus interest to estate	refund of member contributions plus interest to estate
NO SURVIVOR OR BENEFICIARY	more than 2 years	refund of member contributions plus interest to estate	lump-sum payment of commuted value to estate

Derivatives used as hedge against risk

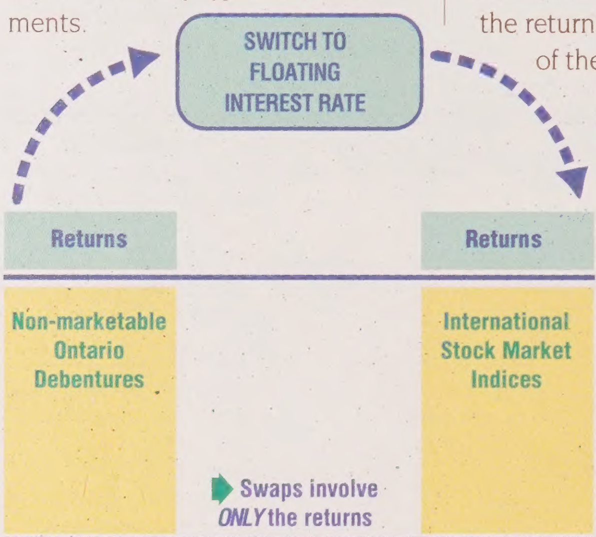
'To condemn derivatives is like preaching about the danger of seatbelts.'

John Hunkin, President, CIBC Wood Gundy, during an address to the Canadian Club, November 14, 1994.

In today's investment environment, using derivatives is like driving with a seatbelt.

WHAT ARE DERIVATIVES?

Derivatives are a sophisticated investment tool that can be used with many types of investments.



"The sensational stories in the news media are about a few who have used derivatives for highly speculative gambles," says Robert Bertram, the pension plan's Sr. Vice-President, Investments. "This does not mean all derivatives should be condemned. That would be like restricting Aspirin because a few are addicted to cocaine."

At the Teachers' Pension Plan we use derivatives to convert returns from non-marketable Ontario debentures, to floating interest rate returns, to stock market returns. This is a sensible way to manage our risk exposure to interest rate fluctuations. The derivatives or swaps involve only the returns—we retain ownership of the original debentures.

WHY ARE DERIVATIVES AN IMPORTANT TOOL?

We use derivatives like seatbelts—to reduce risk. We use derivatives to reduce the plan's exposure to changes in long-term interest rates. For example, before we began to use derivatives, a 1% increase in long-term interest rates would decrease the market value of our debentures by 7%. Our use of derivatives has reduced this impact to 3%. Derivatives help us manage risk by reducing our exposure to interest rate volatility.

CONTROLS ON DERIVATIVES

The Board of Directors has been diligent in establishing strict controls on the use of derivatives. For instance, we only enter derivative agreements with financial institutions that enjoy high-quality credit ratings, roughly equal to the Province of Ontario. Also, our maximum credit exposure through derivatives to any single counterparty is less than 1% of the total fund.

If you're interested in learning more about the pension plan's use of derivatives, read the section on "Risk Management" in the 1994 *Annual Report*.

1994 Report to Members

TAKE A MOMENT, GET THE LATEST

The 1994 *Report to Members* is a short version of the 1994 *Annual Report*. We have designed and written the report to members in response to suggestions by teachers and pensioners who participated in a series of focus groups last October. They wanted a brief report in simple language, supported by illustrative charts and tables. This is what we have strived to deliver.

AT-A-GLANCE

- **plan's assets are $35 billion**
- **four-year average rate of return 12.7%**
- **1994 rate of return 1.7%**

INVESTMENTS MAKING NEWS

We've recently been in the news with offers to invest in Cadillac Fairview and Maple Leaf Foods. Coincidentally, the respective shareholder meetings to approve the bids are both scheduled to begin on April 18.

Cadillac Fairview The company owns a total of 60 properties in major cities in Canada and the U.S. The properties are mostly shopping centres and include such prized real estate as the Toronto Eaton Centre and the Pacific Centre in Vancouver.

The pension plan's bid is in partnership with the Blackstone Group of New York. If successful, together they will invest about $300 million for approximately 30% of the company.

Maple Leaf Foods With revenue of $3.2 billion, Maple Leaf Foods is one of Canada's largest producers of prepared meats and grocery products. Brands include: Shopsy's, Tenderflake, Monarch, Cadbury and Dempster's. The food services include franchises such as Country Style Donuts and Buns Master Bakery. Teachers' will invest about $150 million in the deal and is a partner in the bid lead by Wallace McCain.

For a list of our top-20 investments, see the 1994 *Report to Members*.

Give yourself credit...in your pension

Continued from page 1

were still teaching—about 8.9% of your salary. You have two main options to maintain your pension credit:

- *Paying while on leave*—apply before you go and arrange to continue making your contributions while you're on leave.
- *Paying when you get back*—complete an *Application to Buy Credit* form and return it to us no later than one year after your return to teaching. You can obtain a form by calling us. Once we've reviewed your application, we'll let you know the cost. You can make a lump-sum payment for your leave by transferring money from an RRSP.

For more information, please contact your customer service specialist.

	To qualify to buy credit: Before	After	Options to pay	If you pay after your return	Revenue Canada limits –post '89 leaves	How to apply
Employer-approved leave	must work at least 1 year	return to work for at least 70 days	on-going or after you return	must apply no later than 1 year after your return, and you have 3 years to pay	can buy up to 5 years total credit	Complete the *Application to Buy Credit* form and return it to us
Pregnancy & parental leave	must work at least 13 weeks	return to work for at least 70 days	on-going or after you return	must apply no later than 1 year after your return, and you have 5 years to pay	can buy up to 3 years credit in addition to 5 years above	Complete the *Pregnancy and Parental Leaves* form and return it to your employer
X/Y Leave	must work at least 3 years	return to work for a time at least equal to the leave	done automatically before and during your leave	not applicable	can buy up to 5 years total credit	done automatically

If you miss the deadlines you may still be eligible to buy credit, but the cost will be calculated on an actuarial basis. Applying does not put you under any obligation.

EXCHANGE

We welcome your comments and suggestions. Feel free to call the editor, John Cappelletti, at (416) 730-5351 or write to:

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